

**COUNTY OF SAN BERNARDINO**  
**CALIFORNIA**  
**SPECIAL DISTRICTS**  
**AUDIT REPORT**  
**CRESTLINE SANITATION DISTRICT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**Prepared by:**

**Internal Audits Section**  
**Office of the Auditor/Controller-Recorder**  
**June 24, 2008**

**County of San Bernardino Special Districts  
Crestline Sanitation District**

**Table of Contents**

	<u><b>Page</b></u>
<b>Independent Auditor's Report .....</b>	<b>1-2</b>
<b>Basic Financial Statements</b>	
<b>Fund Financial Statements</b>	
<i>Proprietary Fund:</i>	
Balance Sheet .....	3
Statement of Revenues, Expenses, and Changes in Fund Net Assets.....	4
Statement of Cash Flows .....	5
 Notes to the Financial Statements.....	 6-18

# AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

**AUDITOR/CONTROLLER** • 222 West Hospitality Lane, Fourth Floor  
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

**RECORDER • COUNTY CLERK** • 222 West Hospitality Lane, First Floor  
San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-9050

**LARRY WALKER**  
Auditor/Controller-Recorder  
County Clerk

**ELIZABETH A. STARBUCK, CGFM**  
Assistant Auditor/Controller-Recorder  
Assistant County Clerk

## Independent Auditor's Report

**June 24, 2008**

**Tom Sutton, Director**  
Office of Special Districts  
157 W. Fifth Street, Second Floor  
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF CRESTLINE SANITATION DISTRICT FOR THE FISCAL YEAR  
ENDED JUNE 30, 2007**

### Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Crestline Sanitation District for the fiscal year ended June 30, 2007.

### Auditor's Report

We have audited the accompanying financial statements of the business-type activities of Crestline Sanitation District (District), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2007. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of June 30, 2007, and the respective changes in its financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Respectfully submitted,

**Larry Walker**  
Auditor/Controller-Recorder

By:

\_\_\_\_\_  
**Howard M. Ochi, CPA**  
Chief Deputy Auditor

Quarterly copies to:

County Administrative Office  
Board of Supervisors  
Grand Jury (2)

Audit File (3)

Date Report Distributed: 6/25/08

LDW:HMO:akc:mah

**County of San Bernardino  
Crestline Sanitation District  
Balance Sheet  
Proprietary Funds  
June 30, 2007**

	<u>Enterprise Fund Sewer</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 6,814,089
Restricted cash	48,939
Accounts receivable	524,626
Taxes receivable	104,550
Interest receivable	76,481
Due from other governments	73,079
Total current assets	<u>7,641,764</u>
Noncurrent assets:	
Capital assets:	
Land	213,308
Construction in progress	647,282
Improvements to land	17,151,907
Structures and improvements	5,094,910
Equipment and vehicles	1,481,726
Less accumulated depreciation	<u>(16,075,087)</u>
Total noncurrent assets	<u>8,514,046</u>
Total assets	<u>\$ 16,155,810</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 101,158
Retentions payable	17,283
Bonds payable	48,939
Current portion of loans payable	89,518
Total current liabilities	<u>256,898</u>
Noncurrent liabilities:	
Noncurrent portion of loans payable	<u>984,324</u>
Total noncurrent liabilities	<u>984,324</u>
Total liabilities	<u>1,241,222</u>
<b>NET ASSETS</b>	
Net assets invested in capital assets, net of related debt	7,440,204
Restricted net assets	48,939
Unrestricted net assets	<u>7,425,445</u>
Total net assets	<u>14,914,588</u>
Total liabilities and net assets	<u>\$ 16,155,810</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino  
Crestline Sanitation District  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2007**

	<b>Enterprise Fund</b>
	<b>Sewer</b>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 2,333,309
Total operating revenues	<u>2,333,309</u>
<b>OPERATING EXPENSES</b>	
Professional services	2,121,169
Services and supplies	673,166
Utilities	113,880
Depreciation	<u>560,285</u>
Total operating expenses	<u>3,468,500</u>
Operating Income (Loss)	<u>(1,135,191)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest and investment revenue	362,609
Property taxes	962,619
Special Assessments	57,812
Other taxes	82,644
State aide - Homeowner's exemption	13,480
Other nonoperating revenues	194,625
Interest expense	<u>(19,970)</u>
Total nonoperating revenues (expenses)	<u>1,653,819</u>
Change in net assets	518,628
<b>Net assets - beginning</b>	<u>14,395,960</u>
<b>Net assets - ending</b>	<u><u>\$ 14,914,588</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino  
Crestline Sanitation District  
Statement of Cash Flows  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2007**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from user charges	\$ 2,183,795
Cash payments to suppliers of goods and services	<u>(3,031,614)</u>
Net cash provided (used) by operating activities	<u>(847,819)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Taxes received	1,082,269
State aid - homeowners exemption received	13,480
Other non-operating revenue	<u>194,625</u>
Net cash provided (used) by noncapital financing activities	<u>1,290,374</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Acquisition of fixed assets	(373,264)
Principal paid on bonds and notes	(88,005)
Interest paid on long term liability	<u>(19,970)</u>
Net cash provided (used) by capital and related financing activities	<u>(481,239)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest revenue	<u>346,408</u>
Net cash provided by investing activities	<u>346,408</u>

Net increase (decrease) in cash and cash equivalents	307,724
Balance -- beginning of the year	<u>6,555,304</u>
Balance -- end of the year	<u>\$ 6,863,028</u>

**Reconciliation of operating income (loss) to net cash provided**

**(used) by operating activities:**

Operating income (loss)	\$ (1,135,191)
Adjustments to reconcile operating income to net cash provided	
(used) by operating activities:	
Depreciation expense	560,285
Change in assets and liabilities:	
Accounts receivable	(176,918)
Due from other governments	27,404
Accounts payable and other payables	<u>(123,399)</u>
<b>Net cash provided by operating activities</b>	<u><u>\$ (847,819)</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino  
Crestline Sanitation District  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2007**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Crestline Sanitation District (District) is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter (County). The County was established in 1852 as a legal subdivision of the State of California.

The District was established by an act of the Board of Supervisors of the County of San Bernardino on January 21, 1946, to provide sewer services to the Lake Gregory area. The District operates and maintains three treatment plants, 90 miles of collection systems, 14-mile effluent outfall line, and an effluent disposal site. The District currently serves 5,285 residential and commercial connections.

The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (i) either the County's ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of Crestline Sanitation District and are not intended to present the financial position of the County taken as a whole.

**Measurement focus, basis of accounting, and financial statement presentation**

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds are reported using the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The transactions of the District are accounted for on a flow of *economic resources measurement focus*. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet.



**County of San Bernardino  
Crestline Sanitation District  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2007**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued***

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's enterprise fund is charges to customers for sanitation services. Operating expenses for enterprise funds include the cost of salaries and benefits, services and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

All activities of the District are accounted for in an enterprise fund.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Cash and cash equivalents**

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Cash and cash equivalents include the cash balances of substantially all funds, which are pooled and invested by the County Treasurer to increase interest earnings through investment activities. Investment activities are governed by the California Government Code Sections 53601, 53635, and 53638 and the County's Investment Policy. Authorized investments include U. S. Government Treasury and Agency securities, bankers' acceptances, commercial paper, medium-term notes, mutual funds, repurchase agreements, and reverse repurchase agreements.

Interest income, and realized gains and losses earned on pooled investments are deposited quarterly to the District's accounts based upon the District's average daily deposit balances during the quarter. Unrealized gains and losses of the pooled investments are distributed to the District annually. Cash and cash equivalents are shown at fair value as of June 30, 2007.

**County of San Bernardino  
Crestline Sanitation District  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2007**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued***

**Receivables**

The District sends any delinquent accounts receivable to property tax to be included on the customers' property tax bills. A majority of the delinquent accounts sent to property tax are paid by the customers when they receive their tax bill. Therefore, the delinquent accounts receivable are not considered doubtful and instead included as a part of the total accounts receivable outstanding.

**Property taxes**

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties after December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties after August 31.

**Capital assets**

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the enterprise fund. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	10-100
Structures and Improvements	up to 45
Equipment	5-15

**County of San Bernardino  
Crestline Sanitation District  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2007**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued***

**Net assets**

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contribution of capital. Net assets are classified in the following three components:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This component of net assets consist of net assets of the County that are not restricted for any project or other purpose.

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 2: CASH AND INVESTMENTS**

Cash and investments include the cash balances of substantially all funds which are pooled (the "pool") and invested by the County Treasurer for the purpose of increasing interest earnings through investment activities. The pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it an SEC Rule 2a7 – like pool. The pool does not issue a separate report. Included also are cash and investments held by certain joint powers authorities and cash held by various trustee financial institutions in accordance with the California Government Code. State law now requires that all operating monies of the County, school districts, and board-governed special districts be held by the County Treasurer. The net asset value associated with legally mandated participants in the asset pool was \$3.94 billion at June 30, 2007. As of June 30, 2007, the fair value of the County Pool was \$3.96 billion.

**County of San Bernardino  
Crestline Sanitation District  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2007**

**NOTE 2: CASH AND INVESTMENTS-Continued**

Approximately 9% of the County pool is attributable to the County General Fund, with the remainder of the balance comprised of other County funds, school districts and special districts. Additionally, as of June 30, 2007, \$27.3 million of the amounts deposited in the County pool was attributable to depositors who are not required to, but choose to, invest in the County pool. These include independent special districts, State Trial Court, and other governmental agencies. The deposits held for both involuntary and voluntary entities are reported in the Investment Trust Fund.

**Investments authorized by debt agreement**

Investment of debt proceeds held by bond trustees are governed by provisions of the trust agreements, created in connection with the issuance of debt rather than the general provisions of the California Government Code. Certificates of Participation and Revenue Bond indentures specify the types of securities in which proceeds may be invested as well as any related insurance, collateral, or minimum credit rating requirements. Although requirements may vary between debt issues, money market funds are all required to be investment grade. Guaranteed investment contracts are required to be acceptable to the municipal bond insurer. The fair value of investments is based on the valuation provided by trustee banks.

**Investment credit risk**

Investment credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. GASB Statement No. 40 requires the disclosure of credit quality ratings for investments in debt securities as well as investments in external investment pools, money market funds, and other pooled investments of fixed income securities.

California Law and San Bernardino County Treasury Pool Investment Policy (where more restrictive) place limitations on the purchase of investments in the County Pool. Purchases of commercial paper and negotiable certificates of deposit are restricted to the top two ratings issued by a minimum of two of three nationally recognized statistical rating organizations (NRSRO's). For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody's), or F-1 (Fitch) while an issuer of long-term corporate debt must have a minimum letter rating of "AA". Federal Agency notes and bonds, municipal notes and bonds, and money market mutual funds must have a minimum letter rating of "AAA". Limits are also placed on the maximum percentage investment by sector and by individual issuer (see schedule on page 13). As of June 30, 2007, all investments held by the County Pool were within policy limits.

**County of San Bernardino  
Crestline Sanitation District  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2007**

**NOTE 2: CASH AND INVESTMENTS-Continued**

**Concentration of credit risk**

An increased risk of loss occurs as more investments are acquired from one issuer (i.e. lack of diversification). This results in a concentration of credit risk.

GASB Statement No. 40 requires disclosure of investments by amount and issuer that represent five-percent or more of total investments held.

This requirement excludes investments issued or explicitly guaranteed by the United States Government, investments in mutual funds, external investment pools, and other pooled investments. As of June 30, 2007, the following issuers represented more than five-percent of the County Pool balance (amounts in thousands):

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
FHLB	\$ 886,893	22.52%
FNMA	\$ 612,422	15.55%
FFCB	\$ 393,736	10.00%
FHLMC	\$ 347,172	8.81%

**Interest rate risk**

Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. Generally, the longer the maturity of an investment, the greater the interest rate risk associated with that investment.

GASB Statement No. 40 requires that interest rate risk be disclosed using a minimum of one of five approved methods which are: segmented time distribution, specific identification, weighted average maturity, duration, and simulated model.

The County manages its exposure to interest rate risk by carefully matching cash flows and maturing positions to meet expenditures, limiting 40% of the County Pool to maturities of one year or less, and by maintaining an overall effective duration of 1.5 years or less. Duration is a measure of a fixed income's cash flow using present values, weighted for cash flows as a percentage of the investments full price. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows arising from such investments as callable bonds.

California Law and where more restrictive, the San Bernardino County Pool Investment Policy, place limitations on the maximum maturity of investments to be purchased by sector (see schedule, amounts in thousands). As of June 30, 2007, all investments held by the County Pool were within policy limits.

**County of San Bernardino  
Crestline Sanitation District  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2007**

**NOTE 2: CASH AND INVESTMENTS-Continued**

<b>Security Type</b>	<b>Fair Value</b>	<b>Maturity Range (Days)</b>	<b>Maturity Limits</b>	<b>Average Maturity</b>	<b>Effective Duration</b>
Certificates of Deposit	\$ 749,492	6 - 347	365 days	164	0.43
Commercial Paper	\$ 696,004	2 - 101	270 days	19	0.05
Corporate Notes	\$ 9,392	490	18 months	490	1.26
Federal Agencies	\$2,240,223	11 - 1059	5 years	472	1.13
Money Market Funds	\$ 25,000	1	Imm. Liq.	1	0.003
Repurchase Agreements	\$ 100,001	2	180 days	2	0.005
U.S. Treasuries	\$ 144,384	46 - 777	5 years	231	0.61
Total Securities	<u>\$3,964,496</u>			<u>311</u>	<u>0.75</u>

**Custodial credit risk**

Custodial Credit Risk for Deposits exists when, in the event of a depository financial institution failure, a government may be unable to recover deposits, or recover collateral securities that are in the possession of an outside party. GASB Statement No. 40 requires the disclosure of deposits into a financial institution that are not covered by FDIC depository insurance and are uncollateralized.

California Law requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure County deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2007, the carrying amount of the County's deposits was \$58.1 million and the corresponding bank balance was \$69.6 million. The difference of \$11.5 million was primarily due to outstanding warrants, wires and deposits in transit. Of the bank balance, \$200,000 was insured by the FDIC depository insurance and \$69.4 million was uncollateralized and not insured by FDIC depository insurance. Custodial Credit Risk for Investments exists when, in the event of a failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. In order to limit Custodial Credit Risk for Investments, San Bernardino County Pool Investment Policy requires that all investments and investment collateral be transacted on a delivery versus payment basis with a third-party custodian and registered in the County's name. All counterparties to repurchase agreements must sign a PSA Master Repurchase Agreement and/or Tri-Party Repurchase Agreement before engaging in repurchase agreement transactions.

**County of San Bernardino  
Crestline Sanitation District  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2007**

**NOTE 2: CASH AND INVESTMENTS-Continued**

A summary of the investments held by the County Treasurer is as follows (amounts in thousands):

Investment Type	Cost	Fair Value	S&P Rating	Moody's Rating	Fitch Rating	Maximum Allowed % of Portfolio	Individual Issuer Limitations	% of Pool 06/30/07
U.S. Treasury Securities	\$ 144,535	\$ 144,384	AAA	Aaa	AAA	100%	None	3.00%
U.S. Government Agencies	2,246,987	2,240,223	AAA	Aaa	AAA	75%	None	56.90%
Negotiable Certificates of Deposit	750,144	749,492	A1+	P1	F1+	30%	\$100MM	19.00%
Commercial Paper	692,120	696,004	A1+	P1	F1+	40%	10%	17.00%
Corporate Notes	9,478	9,392	AA	Aa1	AA+	10%	\$50MM	0.30%
Money Market Mutual Funds	25,000	25,000	AAA	Aaa	AAA	15%	10%	0.50%
Repurchase Agreements	100,000	100,001	A1	P1	F1+	40%	None	2.50%
Total Treasurer's Pooled Investments	\$ 3,968,264	\$ 3,964,496						
Investments Controlled by Fiscal Agents:								
Guaranteed Investment Contracts	35,917	35,917						
U.S. Treasury Securities	84,372	84,372						
U.S. Agency Discount Notes	6,603	6,603						
Total Investments Controlled by Fiscal Agents	\$ 126,892	\$ 126,892						
Total Investments	\$ 4,095,156	\$ 4,091,388						
Cash in Banks:								
Non-Interest Bearing Deposits		\$ 58,066						
Total Cash and Investments		\$ 4,149,454						

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's investment pool as of June 30, 2007 (amounts in thousands):

<b>Statement of Net Assets</b>	
Equity of internal pool participants	\$ 1,698,508
Equity of external pool participants:	
Voluntary	27,346
Involuntary	2,238,642
Total Net Assets held for pool participants	\$ 3,964,496

<b>Statement of Changes in Net Assets</b>	
Net Assets at July 1, 2006	\$ 3,335,214
Net change in investments by pool participants	629,282
Net Assets at June 30, 2007	\$ 3,964,496

**County of San Bernardino  
Crestline Sanitation District  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2007**

**NOTE 2: CASH AND INVESTMENTS-Continued**

As of June 30, 2007, Cash and Investments for Crestline Sanitation District are classified in the accompanying financial statements as follows:

	Total Business-type Activities
Cash and Investments	\$ 6,814,089
Restricted Cash	\$ 48,939
<b>Total Cash and Investments</b>	<b>\$ 6,863,028</b>

**NOTE 3: RESTRICTED CASH**

The District issued bonds under the Improvement Act of 1915 (Bonds) to finance certain sewer improvements. The District reports the Bonds according to the provisions of the Government Accounting Standards Boards Statement No. 6. All the District's bonds matured as of July 2, 1996. The portion of the matured Bonds held by the Treasurer/Tax-Collector of the County of San Bernardino amounting to \$48,939 is reported as restricted cash.

**NOTE 4: CAPITAL ASSETS**

Capital assets activities during the year were as follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	\$ 213,308	\$ -	\$ -	213,308
Construction in progress	348,857	306,425	(8,000)	647,282
Total capital assets, not being depreciated	562,165	306,425	(8,000)	860,590
Capital assets, being depreciated:				
Land improvements	17,151,907	-	-	17,151,907
Structures	5,094,910	-	-	5,094,910
Vehicles	1,105,121	5,201	-	1,110,322
Equipment	309,766	66,839	(5,201)	371,404
Total capital assets, being depreciated	23,661,704	72,040	(5,201)	23,728,543
Less accumulated depreciation for:				
Land improvements	(11,730,804)	(394,247)	-	(12,125,051)
Structures	(2,660,177)	(99,089)	-	(2,759,266)
Vehicles	(960,825)	(47,006)	-	(1,007,831)
Equipment	(162,996)	(19,943)	-	(182,939)
Total accumulated depreciation	(15,514,802)	(560,285)	-	(16,075,087)
Total capital assets, being depreciated, net	8,146,902	(488,245)	(5,201)	7,653,456
<b>Capital assets, net</b>	<b>\$ 8,709,067</b>	<b>\$ (181,820)</b>	<b>\$ (13,201)</b>	<b>\$ 8,514,046</b>



**County of San Bernardino  
Crestline Sanitation District  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2007**

**NOTE 4: CAPITAL ASSETS-Continued**

**Construction in Progress**

Construction in progress represents the following projects:

<b>Project Title</b>	<b>Budget</b>	<b>Expenses as of 06/30/2007</b>	<b>Projected Completion Date</b>
Facility Expansion	1,698,115	\$ 642,737	2008
Huston Creek Facility Expansion	1,003,258	4,545	2009
		<u>\$ 647,282</u>	

**NOTE 5: LOAN PAYABLE**

On January 16, 1997, the District received a revolving fund loan from the State Water Resources Control Board in the amount of \$2,159,508. The proceeds of the loan were used to fund construction of the Huston Creek treatment plant effluent storage reservoir. Of the \$2,159,508 loan amount, \$359,925 was funded by local matching funds. The loan will be repaid in March 2018. At June 30, 2007, the outstanding principal balance is \$1,073,842. A summary of loan payments for the remaining fiscal years is as follows:

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2008	\$ 89,518	\$ 18,457	\$ 107,975
2009	91,057	16,918	107,975
2010	92,622	15,353	107,975
2011	94,214	13,761	107,975
2012	95,833	12,142	107,975
2013-2017	504,447	35,430	539,877
2018	106,151	1,825	107,976
<b>Total</b>	<u>\$ 1,073,842</u>	<u>\$ 113,886</u>	<u>\$ 1,187,728</u>

**County of San Bernardino  
Crestline Sanitation District  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2007**

**NOTE 6: LONG-TERM OBLIGATIONS**

The following is a summary of long-term liabilities transactions for the year ended June 30, 2007:

	<b>Principal Balance July 1, 2006</b>	<b>Additions</b>	<b>Retirements</b>	<b>Principal Balance June 30, 2007</b>	<b>Amounts Due Within One Year</b>
Loan Payable	\$ 1,161,847	\$ -	\$ 88,005	\$ 1,073,842	\$ 89,518
Total long-term liabilities	<u>\$ 1,161,847</u>	<u>\$ -</u>	<u>\$ 88,005</u>	<u>\$ 1,073,842</u>	<u>\$ 89,518</u>

**NOTE 7: SELF INSURANCE**

The District is insured through the County's self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to \$1 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$25 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers' compensation claims are self-insured up to \$2 million per occurrence, and covered by CSAC EIA for up to \$10 million for employer's liability, and up to \$50 million for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25,000 deductible, and insured with CSAC EIA Property Program.

The County supplements its self-insurance for medical malpractice claims with CSAC EIA, which provides annual coverage on a claim made form basis with a SIR of \$1 million for each claim. Maximum coverage under the policy is \$11.5 million per claim with an additional \$10 million in limits provided by the CSAC EIA General Liability II Program.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, also with CSAC EIA with a \$100,000 deductible, and excess limits up to \$10 million per occurrence.

**County of San Bernardino  
Crestline Sanitation District  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2007**

**NOTE 7: SELF INSURANCE – Continued**

The activities related to such programs are accounted for in the County's Risk Management Fund (an Internal Service Fund), except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The incurred but not reported (IBNR) and incurred but not settled (IBNS) liabilities stated on the Risk Management fund's balance sheet are based upon the results of actuarial studies, and include amounts for allocated and unallocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 4.75%. It is the County's practice to obtain actuarial studies on an annual basis.

The County has a risk management investment program agreement with the Bank of New York to finance the self-insured general liability, automobile liability, workers' compensation, and medical malpractice programs. The County's investment in the agreement totaled \$50.3 million at June 30, 2007.

The total claims liability of \$129.7 million reported on the Risk Management fund's balance sheet at June 30, 2007 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2006 and 2007 were:

<b>Fiscal Year</b>	<b>Beginning of Fiscal Year Liability (in thousands)</b>	<b>Current-Year Claims and Changes in Estimates (in thousands)</b>	<b>Claims Payments (in thousands)</b>	<b>Balance at Fiscal Year-End (in thousands)</b>
2005-06	\$115,714	\$46,926	(\$35,407)	\$127,233
2006-07	\$127,233	\$34,312	(\$31,862)	\$129,683

**County of San Bernardino  
Crestline Sanitation District  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2007**

**NOTE 8: RESTRICTED NET ASSETS**

The District issued bonds under the Improvement Act of 1915 (Bonds) to finance certain sewer improvements. The District reports the Bonds according to the provisions of the Government Accounting Standards Boards Statement No. 6. All the District's bonds matured as of July 2, 1996. The portion of the matured Bonds held by the Treasurer/Tax-Collector of the County of San Bernardino amounting to \$48,939 is reported as restricted net assets.

**NOTE 9: PROPOSITION 111 APPROPRIATION LIMITS**

Proposition 111, which added Article XIII B to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2006-2007 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**NOTE 10: GAIN CONTINGENCY**

On or about July 10, 1971, Crestline Sanitation District (CSD) and Department of Parks and Recreation (DPR) entered into the Silverwood Lake Reservoir Project Sewerage Agreement regarding the operation and maintenance of sewerage facilities, known as the Cleghorn Wastewater Treatment Plant at Silverwood Lake State Recreation Area. The term of this agreement was for a period of twenty-five years and expired July 9, 1996. Since then the parties have been operating on a month to month arrangement. Presently the parties are negotiating a new sewerage agreement, however a dispute has arisen regarding the amount CSD is charging and intends to charge DPR for administration and supervision fees over the operation and the maintenance of the Wastewater Treatment Plant.

To resolve the dispute, the parties entered into a settlement agreement and release of claims. DPR agreed to compensate CSD the gross sum of \$49,423 as compensation in full for administration and supervision fees.